

**REPORT OF THE AUDIT OF THE
MONTGOMERY COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MONTGOMERY COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period
April 16, 2010 Through April 15, 2011

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the Montgomery County Sheriff for the period April 16, 2010 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$11,541,074 for the districts for 2010 taxes, retaining commissions of \$306,268 to operate the Sheriff's office. The Sheriff distributed taxes of \$11,221,201 to the districts for 2010 taxes. Taxes of \$1,800 are due to the districts from the Sheriff and refunds of \$384 are due to the Sheriff from the taxing districts.

Report Comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of November 10, 2011 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$8,161,333

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Wallace Johnson, Montgomery County Judge/Executive

Honorable Fred Shortridge, Montgomery County Sheriff

Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the Montgomery County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011. This tax settlement is the responsibility of the Montgomery County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Montgomery County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Wallace Johnson, Montgomery County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 4, 2011

MONTGOMERY COUNTY
FRED SHORTRIDGE, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 757,601	\$ 2,843,587	\$ 5,336,632	\$ 1,365,031
Tangible Personal Property	83,502	411,543	474,796	519,081
Fire Protection	102			
Franchise Taxes	25,390	116,571	153,909	
Additional Billings	239	795	1,702	540
Limestone, Sand and Mineral Reserves	185	779	1,303	333
Penalties	4,067	15,491	28,441	7,621
Adjusted to Sheriff's Receipt	43	7	5	8
Gross Chargeable to Sheriff	<u>871,129</u>	<u>3,388,773</u>	<u>5,996,788</u>	<u>1,892,614</u>
<u>Credits</u>				
Exonerations	1,734	7,066	11,995	3,068
Discounts	12,163	47,223	84,076	28,125
Delinquents:				
Real Estate	26,930	99,483	189,692	48,314
Tangible Personal Property	2,901	13,278	16,497	15,685
Total Credits	<u>43,728</u>	<u>167,050</u>	<u>302,260</u>	<u>95,192</u>
Taxes Collected	827,401	3,221,723	5,694,528	1,797,422
Less: Commissions *	<u>35,165</u>	<u>109,295</u>	<u>85,418</u>	<u>76,390</u>
Taxes Due	792,236	3,112,428	5,609,110	1,721,032
Taxes Paid	791,243	3,107,826	5,602,683	1,719,449
Refunds (Current and Prior Year)	<u>828</u>	<u>3,946</u>	<u>6,172</u>	<u>1,243</u>
Due Districts		**		
as of Completion of Audit	<u>\$ 165</u>	<u>\$ 656</u>	<u>\$ 255</u>	<u>\$ 340</u>

*, ** See next page.

The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY
 FRED SHORTRIDGE, SHERIFF
 SHERIFF'S SETTLEMENT - 2010 TAXES
 For The Period April 16, 2010 Through April 15, 2011
 (Continued)

* Commissions:

4.25% on	\$ 4,347,001
4% on	\$ 703,567
1.5% on	\$ 5,694,528
1% on	\$ 795,978

** Special Taxing Districts:

Library District	\$ 699
Health District	120
Extension District	89
Ambulance District	132
Fire Protection District	<u>(384)</u>

Due Districts or
 (Refund Due Sheriff)

\$ 656

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Montgomery County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 10, 2011 public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$8,161,333

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 21, 2010 through April 15, 2011.

Note 4. Interest Income

The Montgomery County Sheriff earned \$2,190 as interest income on 2010 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Montgomery County Sheriff collected \$41,163 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Johnson, Montgomery County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Montgomery County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, and have issued our report thereon dated August 4, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation as item 2010-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Montgomery County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Montgomery County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

August 4, 2011

COMMENT AND RECOMMENDATION

MONTGOMERY COUNTY
FRED SHORTRIDGE, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2010 Through April 15, 2011

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties because the employees that collect taxes also prepare the daily checkout sheets and make deposits. Also, the bookkeeper prepares all monthly reports, prepares checks, and reconciles the bank account. Good internal controls dictate the same employee should not handle and record receipts and disbursements. We recommend the Sheriff segregate these duties or put the following compensating controls in place to offset this significant deficiency:

- An independent person should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This individual could document this by initialing the bank deposit, daily checkout sheet and receipts ledger.
- An independent person should compare the monthly financial report to the receipts and disbursements ledgers for accuracy. Any difference should be reconciled. This individual could document this by initialing the monthly financial reports.
- An independent person should compare the monthly bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This individual could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: Due to our budget and lack of size, it limits what we can do. But we segregate our duties to some extent and do monitor our monies quite well.

Auditor's Reply: The recommended compensating controls do not require additional staff to be hired.

